Spring Statement 2023 Summary

Just a few days short of the third anniversary of the first Covid lockdown, Chancellor Jeremy Hunt rose to the Despatch Box to deliver the first full Budget to have taken place in 504 days and the first unaffected by the immediate impact of the pandemic since October 2018.

Of course, in that time, we have had several fiscal statements and mini-Budgets, but never a full Budget Statement.

In contrast to the last full Budget, gone is the financial emergency of the Covid lockdowns, gone is the immediate fallout from the ill-fated Truss-Kwarteng mini-Budget of last Autumn, and gone is the immediate threat of a winter with households and businesses crippled by astronomical fuel bills.

Against a background of Brexit, Covid and domestic political instability, Jeremy Hunt will doubtless have been hoping that the first full Budget post-Covid would mark a return to a more normal footing for politics and the economy.

However, there was still plenty for the Chancellor to deal with. Inflation, exceptionally high fuel bills, stagnant growth, economic inactivity and the post-Covid damage to the public finances have not gone away.

Those were the areas the Chancellor was expected to set his sights on as he rose to his feet.

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OBR Forecasts and the Public Finances

The Chancellor began by describing his speech as a “Budget for Growth”, saying he would deliver on an aim to make the UK one of the most prosperous countries in the world by removing barriers to investment, tackling labour shortages, breaking down barriers to work and harnessing British ingenuity.

He said the Office for Budget Responsibility (OBR) expects inflation to fall from a high of 10.7 per cent in the final quarter of 2022 to 2.9 per cent by the end of 2023, achieving the Government’s aim of halving inflation. The OBR no longer expects the economy to enter a technical recession, with the economy expected to shrink by 0.2 per cent during 2023, before growing by 1.8 per cent in 2024, 2.5 per cent in 2025, 2.1 per cent in 2026 and 1.9 per cent in 2027.

Moving to the public finances, the Chancellor said that public sector net debt is currently 100.6 per cent of GDP but is expected to fall to 94.6 per cent of GDP by 2027-28.

“Back to Work” Measures

The Chancellor said that there are currently one million vacancies in the economy and seven million adults of working age who are not currently employed. He said that encouraging more people from this group into the labour market would be vital for growing the economy.

He announced various measures designed to get people back to work, including reforms to disability and out-of-work benefits intended to remove certain constraints and disincentives to work.

He also noted that there are now three million working age people over the age of 50 who are not in work – a figure that has increased by more than 300,000 since the pandemic. To tackle this, he announced further career support for the over-50s and a dedicated program of apprenticeships to be known as “Returnerships”.

Meanwhile, the Chancellor said that five occupations in the construction sector will be added to the Shortage Occupation List, making it easier for employers to employ skilled workers from outside the UK.

Cost of Living, Childcare and Fuel Bills

Following an announcement earlier in the day, the Chancellor confirmed that the Government’s Energy Price Guarantee, which caps per-unit household energy bills, will remain in place for a further three months from April to June 2023.

The Chancellor said that this effectively continues to cap a typical household bill at £2,500 a year.

At the same time, he said that fuel duty will remain frozen and the existing temporary 5p cut will be retained for an additional year.

He also confirmed another significant measure that had been announced ahead of the Budget in the form of a commitment to extend the provision for 30 hours’ free childcare for the children of working parents to the parents of all pre-school children aged from nine months. These reforms will be phased in gradually from April 2024 to September 2025.

There will also be changes to staff-to-child ratios in nurseries and incentives for new childminders to encourage an increase in provision in the sector.

Business Taxation

The Chancellor announced two significant changes for businesses – the introduction of a new "Full Expensing" scheme to help mitigate the impact of April's increase in the main rate of Corporation Tax, which he confirmed will go ahead, and further reforms to Research and Development (R&D) Tax Relief.

Full Expensing will be introduced from 1 April 2023, replacing the Super Deduction. It will allow companies to write off the full cost of qualifying plant and machinery investments in the year of the investment. The measure initially applies for three years but the Chancellor said he hoped to make it permanent "when fiscal conditions allow".

The Chancellor announced a significant increase in the relief available to loss-making R&D intensive SMEs, which will now receive £27 from HM Revenue & Customs (HMRC) for every £100 of R&D investment.

The move has been prompted by reforms previously announced that will take effect from April 2023 that will reduce the rate of tax relief and tax credits available to some SMEs.

Additionally, the Chancellor announced the creation of 12 investment zones across the UK. Those in England will have access to funds worth £80 million over five years, with a five year tax offer equivalent to that available to Freeports.

The zones will be located in the East Midlands, Manchester, Liverpool, the North East, South Yorkshire, Tees Valley, the West Midlands and West Yorkshire, as well as in each of Wales, Scotland and Northern Ireland.

Pensions

Few Budgets come to pass without some sort of rabbit-out-of-the-hat moment and this one was no exception.

While it had been trailed that there would be a significant increase in the Pensions Lifetime Allowance from its current level of £1 million, in a surprise move the Chancellor announced that the Pensions Lifetime Allowance would be scrapped entirely from April 2023.

At the same time, he also increased the Pensions Annual Allowance from its current level of £40,000 up to £60,000 from April 2023.

Conclusion

This was in many ways a return to normality for a Budget following the upheavals of recent years.

Reforms to Pension Allowances in particular may mean that business owners and senior professionals will need to revisit their tax planning to take advantage of the increased ability to save into their pension pots.